

State of Wisconsin

Department of Employee Trust Funds



Agency Budget Request
2013 – 2015 Biennium
September 24, 2012

Table of Contents

Cover Letter	3
Description	4
Mission	5
Goals	6
Performance Measures	8
Agency Total by Fund Source.....	9
Agency Total by Program.....	11
Agency Total by Decision Item (DIN)	12
Segregated Revenue and Balances Statement.....	13
Decision Items.....	19



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

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September 24, 2012

SECRETARY MIKE HUEBSCH
DEPT OF ADMINISTRATION
101 E WILSON ST 10TH FL
P O BOX 7864
MADISON WI 53707-7864

RE: 2013-15 Biennial Budget Request

Dear Secretary Huebsch:

I am pleased to submit the 2013-2015 biennial budget request for the Department of Employee Trust Funds (ETF). The Department's request has been prepared in accordance with your major budget policies for 2013-15. No general purpose revenue (GPR) is sought for operational purposes in this budget request. The ETF Board endorsed the attached budget request at its September 20, 2012 meeting.

In addition to standard budget adjustments and technical items, this request includes provisions critical to ETF's ability to serve a growing population of retirees and to do so in a way that provides efficiencies for ETF and for public employers across the state. The request also includes funding to implement a wellness program to promote and support better healthcare choices by state employees.

We look forward to working with you and your staff as the budget progresses. If you have any questions or need additional information, please do not hesitate to contact me at (608) 266-0301 or Rob Marchant, ETF Deputy Secretary, at (608) 266-9854.

Sincerely,

Robert J Conlin
Secretary

cc: Brian Hayes, State Budget Director, Department of Administration
Robert Lang, Director, Legislative Fiscal Bureau

Wisconsin Employee Trust Funds

Biennial Budget 2013-2015

Agency Description

Employee Trust Funds is responsible for the state-administered benefit programs including retirement program; group insurance programs (health, life, income continuation, long-term disability and long-term care); employee reimbursement account program; commuter benefits program; deferred compensation trust funds for state and local government employees; state accumulated sick leave conversion credits program; miscellaneous other benefits and private health insurance for small businesses. ETF is responsible for maintain individual accounts for current and former employees.

There are five Boards of Trustees associated with the Wisconsin Department of Employee Trust Funds (ETF). The Boards set policy and review the overall administration of the benefit programs provided for state and local government employees. Board membership is set by state law. Members attend meetings in Madison and influence ETF's direction by voicing member concerns, identifying ways to improve service to participants and employers, and prioritizing available resources to meet competing administrative needs. The five Boards are: Employee Trust Funds Board, Wisconsin Retirement Board, Teachers Retirement Board, Group Insurance Board and Deferred Compensation Board. The department is headed by a secretary appointed by a 13-member Employee Trust Funds Board.

The assets are managed and invested by the State of Wisconsin Investment Board. These assets are held in trust to secure coverage to pay benefits to members or their beneficiaries, and are not assets of the state.

Mission

Wisconsin Employee Trust Funds

The mission of the department is to develop and deliver quality benefits and services to customers while safeguarding the integrity of the trust.

Core Values

- **INTEGRITY**

We earn the trust of our members by keeping our promises. We maintain their confidence by adhering to the highest standards of ethical conduct in all of our activities.

- **RESPECT**

We appreciate the diversity of those we serve and we treat each individual with respect. We listen to our members, we are helpful and courteous and we make their needs our highest priorities.

- **QUALITY**

We believe in providing quality service that is timely, accurate, thorough and accessible. We approach the challenges of the future by continuously improving our service through creativity and innovation.

- **PEOPLE**

We strive to develop employees to their fullest potential and foster diversity and team effort. Enthusiasm, skill, dedication and pride in their work make them our most valuable assets.

Vision Statement

It is our goal to become a leader among large public employee benefit systems by offering best practice customer services to our members.

To achieve this goal:

- We will offer a suite of tools that will empower our customers to become better educated about their benefits, have access to meaningful, up-to-date information about those benefits, and to be able to enroll in, change critical information about, and apply for those benefits without reliance on staff resources;
- We will be more available to more members in more parts of the state to provide critical retirement planning, problem solving and direct education;
- We will build our infrastructure (human resources, information technology, facility, etc.) to ensure it has the capacity to support achieving our goal; and,
- We will make the most of our resources by incorporating modern best practices into our activities, by continually evaluating all of our processes for their effectiveness in meeting the needs of our customers, by safeguarding member data, and by delivering the best value to our members not only in the benefits we offer but in the services we provide.

Program Goals and Objectives

Biennial Budget 2013-2015

Wisconsin Employee Trust Funds

Program 1: Employee Benefit Plans

Goal: Clearly communicate benefit details and options in a manner appropriate to customers and stakeholders.

Objective/Activity: Increase accessibility through modernizing business processes and integrating information technology (IT) and face-to-face counseling with members.

Goal: Focus on the needs of customers and provide them with accurate, understandable and timely information.

Objective/Activity: Reduce the time to provide essential services to members.

Goal: Maintain sufficient resources to provide quality services and benefits and to meet essential customer needs in a timely manner.

Objective/Activity: Maintain costs of administration of benefit plans at or below the median of peer public retirement systems.

Performance Measures
Biennial Budget 2013-2015

Wisconsin Employee Trust Funds

2011 AND 2012 Goals and Outcomes

Prog. No.	Performance Measure	Goal 2011	Actual 2011	Goal 2012	Actual 2012
1.	Number of calls offered to the call center staff and percentage answered.	146,835 90%	136,694 85%	148,830 90%	147,932 91%
1.	Average time caller waits in queue.	1 minute	2:47 minutes	1 minute	2:16 minutes
1.	Number of eligible participants counseled.	10,762	12,628	11,363	10,015
1.	Percentage of active participants that receive counseling.	4.0%	4.69%	4.2%	3.53%
1.	Days to provide annuity retirement estimate from date of receipt to mailing, assuming requests from 25 percent of participants eligible to retire.	15	18	25	12
1.	Total administrative cost per active member and annuitant compared to the median of peer retirement systems. ¹	90%	65%	<100%	Not available

Note: Based on fiscal year.

¹Retirement and disability programs only – other benefit programs administered by the department are excluded.

2013, 2014 AND 2015 GOALS

Prog. No.	Performance Measure	Goal 2013	Goal 2014	Goal 2015
1.	Number of calls offered to the call center staff and percentage answered.	150,784 90%	168,108 90%	176,513 90%
1.	Average time caller waits in queue.	1 minute	1 minute	1 minute
1.	Number of eligible participants counseled.	11,971	12,037	12,645
1.	Percentage of active participants that receive counseling.	4.4%	4.4%	4.6 %
1.	Days to provide annuity retirement estimate from date of receipt to mailing, assuming requests from 25 percent of participants eligible to retire.	25	20	20
1.	Total administrative cost per active member and annuitant compared to the median of peer retirement systems. ¹	<100%	< 100%	< 100%

Note: Based on fiscal year.

¹Retirement and disability programs only – other benefit programs administered by the department are excluded.

		ANNUAL SUMMARY						BIENNIAL SUMMARY			
Source of Funds		Prior Year Total	Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
GPR	A	\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.1%
GPR	S	\$0	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	
Total		\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.1%
PR Federal	S	\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	
Total		\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	
SEG	S	\$56,997,308	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.0%
Total		\$56,997,308	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.0%
Grand Total		\$83,529,878	\$36,265,300	\$42,418,700	\$44,161,200	264.20	264.20	\$72,530,600	\$86,579,900	\$14,049,300	19.4%

Source of Funds	ANNUAL SUMMARY						BIENNIAL SUMMARY			
	Prior Year Actual	Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
01 EMPLOYEE BENEFIT PLANS										
Non Federal										
GPR	\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.06%
A	\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.06%
SEG	\$56,997,308	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.02%
S	\$56,997,308	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.02%
Total - Non Federal	\$57,530,355	\$36,265,300	\$42,418,700	\$44,161,200	264.20	264.20	\$72,530,600	\$86,579,900	\$14,049,300	19.37%
A	\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.06%
S	\$56,997,308	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.02%
Federal										
PR	\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	0.00%
S	\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	0.00%
Total - Federal	\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	0.00%
S	\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	0.00%
PGM 01 Total	\$83,529,878	\$36,265,300	\$42,418,700	\$44,161,200	264.20	264.20	\$72,530,600	\$86,579,900	\$14,049,300	19.37%
GPR	\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.06%
A	\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.06%
PR	\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	0.00%

Agency Total by Program

515 Employee Trust Funds, Department of

1315 Biennial Budget

S	\$25,999,523	\$0	\$0	\$0	0.00	0.00	\$0	\$0	\$0	0.00%
SEG	\$56,997,308	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.02%
S	\$56,997,308	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.02%
TOTAL 01	\$83,529,878	\$36,265,300	\$42,418,700	\$44,161,200	264.20	264.20	\$72,530,600	\$86,579,900	\$14,049,300	19.37%
A	\$533,047	\$433,100	\$321,100	\$250,100	0.00	0.00	\$866,200	\$571,200	(\$295,000)	-34.06%
S	\$82,996,831	\$35,832,200	\$42,097,600	\$43,911,100	264.20	264.20	\$71,664,400	\$86,008,700	\$14,344,300	20.02%
Agency Total	\$83,529,878	\$36,265,300	\$42,418,700	\$44,161,200	264.20	264.20	\$72,530,600	\$86,579,900	\$14,049,300	19.37%

Decision Item	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
2000 Adjusted Base Funding Level	\$36,265,300	\$36,265,300	260.20	260.20
3001 Turnover Reduction	(\$406,800)	(\$406,800)	0.00	0.00
3003 Full Funding of Continuing Position Salaries and Fringe Benefits	\$1,220,200	\$1,220,200	0.00	0.00
3007 Overtime	\$45,700	\$45,700	0.00	0.00
3008 Night and Weekend Differential Pay	\$72,500	\$72,500	0.00	0.00
3010 Full Funding of Lease and Directed Moves Costs	\$643,400	\$676,500	0.00	0.00
4001 Continuation of Business Process Modernization and Technology Integration Efforts	\$4,223,000	\$5,850,800	2.00	2.00
5001 Annuity Supplements	(\$112,000)	(\$183,000)	0.00	0.00
6000 Wellness in the Workplace	\$147,600	\$293,600	2.00	2.00
7000 Misc Re-estimates	\$319,800	\$326,400	0.00	0.00
TOTAL	\$42,418,700	\$44,161,200	264.20	264.20

Segregated Funds Revenue and Balances Statement

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
NUMERIC		
PROGRAM	01	Employee benefit plans
SUBPROGRAM		
WiSMART FUND	262	

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
Opening Balance	\$20,115,000	\$20,645,000	\$20,487,000	\$20,307,000
Investment Earnings	\$22,000	\$31,000	\$31,000	\$30,000
All Other	\$77,788,000	\$77,716,000	\$77,934,000	\$78,416,000
Administrative expense reimbursement	\$32,343,000	\$37,807,000	\$42,097,600	\$43,911,100
Total Revenue	\$130,268,000	\$136,199,000	\$140,549,600	\$142,664,100
Expenditures	\$109,623,000	\$115,712,000	\$0	\$0
7000 Misc Re-estimates	\$0	\$0	\$319,800	\$326,400
4001 Continuation of Business Process Modernization and Technology Integration Efforts	\$0	\$0	\$4,223,000	\$5,850,800
2000 Adjusted Base Funding Level	\$0	\$0	\$35,832,200	\$35,832,200
3010 Full Funding of Lease and Directed Moves Costs	\$0	\$0	\$643,400	\$676,500
6000 Wellness in the Workplace	\$0	\$0	\$147,600	\$293,600
3001 Turnover Reduction	\$0	\$0	(\$406,800)	(\$406,800)
3003 Full Funding of Continuing Position Salaries and Fringe Benefits	\$0	\$0	\$1,220,200	\$1,220,200
3007 Overtime	\$0	\$0	\$45,700	\$45,700
3008 Night and Weekend Differential Pay	\$0	\$0	\$72,500	\$72,500
Benefits	\$0	\$0	\$78,145,000	\$78,649,000
Total Expenditures	\$109,623,000	\$115,712,000	\$120,242,600	\$122,560,100
Closing Balance	\$20,645,000	\$20,487,000	\$20,307,000	\$20,104,000

Department of Employee Trust Funds

1315 Biennial Budget

**Segregated Fund Revenue and Expenditure Summary
(In Thousands \$)**

	Prior Year Actual (FY 2011-12)	Base Year Estimate (FY 2012-13)	1st Year Estimate (FY 2013-14)	2nd Year Estimate (FY 2014-15)
Public Employees Trust Fund (262)				
Beginning Balance	\$20,115	\$20,645	\$20,487	\$20,307
Revenues				
Investment Earnings	22	31	31	30
Administrative Expense Reimbursement	32,343	37,807	42,098	43,911
Commuter Benefits - Employee - Salary Reductions	1,291	1,289	1,286	1,283
Commuter Benefits - Employer - Administrative Fee	137	139	143	146
Deferred Compensation - Administrative Reimbursement	176	180	185	190
ERA - Employee - Salary Reductions	23,337	23,308	23,280	23,252
ERA - Employer - Administrative Fee	\$422	\$421	\$420	\$420
Life Insurance - Administrative Reimbursement	793	813	833	854
Life Insurance Premiums - Additional	5,755	5,348	4,969	4,618
Life Insurance Premiums - Annuitant	8,770	9,452	10,187	10,979
Life Insurance Premiums - Employee	29,402	29,252	29,277	29,450
Life Insurance Premiums - Employer	6,573	6,344	6,147	5,978
Life Insurance Premiums - Spouse & Dependent	1,133	1,170	1,208	1,247
Total Revenues	\$110,153	\$115,554	\$120,063	\$122,357
Expenditures				
Agency Administration	31,368	37,807	42,098	43,911
Commuter Benefits - Administration	136	139	143	146
Commuter Benefits - Claims Payment	1,299	1,289	1,286	1,283
Deferred Compensation - Administration	176	180	185	190
ERA - Administration	823	843	864	886
ERA - Claims Payment	23,371	23,075	23,048	23,020
Life Insurance - Administration	793	813	833	854
Life Insurance - Insurance Premiums	51,657	51,565	51,787	52,271
Total Expenditures	\$109,623	\$115,712	\$120,243	\$122,560
Ending Balance	\$20,645	\$20,487	\$20,307	\$20,104

Segregated Funds Revenue and Balances Statement

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
NUMERIC		
PROGRAM	01	Employee benefit plans
SUBPROGRAM	01	Benefit payments
WISMA RT FUND	747	

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
Opening Balance	\$70,926,900,000	\$69,077,300,000	\$71,226,900,000	\$73,444,800,000
Investment Earnings	\$866,800,000	\$4,973,600,000	\$5,128,300,000	\$5,288,000,000
Premiums and Contributions	\$2,983,500,000	\$3,159,300,000	\$3,370,200,000	\$3,448,900,000
Total Revenue	\$74,777,200,000	\$77,210,200,000	\$79,725,400,000	\$82,181,700,000
Expenditures	\$5,699,900,000	\$5,983,300,000	\$0	\$0
	\$0	\$0	\$6,280,600,000	\$6,596,100,000
Total Expenditures	\$5,699,900,000	\$5,983,300,000	\$6,280,600,000	\$6,596,100,000
Closing Balance	\$69,077,300,000	\$71,226,900,000	\$73,444,800,000	\$75,585,600,000

Department of Employee Trust Funds

1315 Biennial Budget

Segregated Fund Revenue and Expenditure Summary				
(In Thousands \$)				
	Prior Year	Base Year	1st Year	2nd Year
	Actual	Estimate	Estimate	Estimate
Core Retirement Trust Fund (747)	(FY 2011-12)	(FY 2012-13)	(FY 2013-14)	(FY 2014-15)
Beginning Balance	<u>\$70,926,876</u>	<u>\$69,077,265</u>	<u>\$71,226,826</u>	<u>\$73,444,733</u>
Revenues				
Investment Earnings	866,753	4,973,563	5,128,331	5,288,021
Duty Disability - Contributions	53,421	55,361	57,383	59,491
Health Insurance - Administrative Fee	3,586	3,764	3,955	4,161
Health Insurance - Medicare Part D Subsidy	14,390	0	0	0
Health Insurance Premiums	1,267,071	1,336,760	1,410,281	1,487,847
Health Insurance Premiums - Annuitants	81,921	86,017	90,318	94,834
Health Insurance Premiums - Life Insurance Conversion	432	517	618	740
Health Insurance Premiums - Sick Leave Conversion	135,673	142,968	150,041	157,465
ICI - Premiums - Employee	7,223	7,295	7,368	7,441
ICI - Premiums - Employer	6,590	6,656	6,722	6,790
Milwaukee Retirement - Deposits	7,200	0	0	0
Part D Medicare EGWP	1,111	1,167	1,225	1,287
Police & Fire - Employer Req Contrib	1,429	1,159	940	763
Sick Leave Conversion - Contributions	31,425	34,568	38,024	38,785
Supplemental ICI - Administration	30	31	31	31
Supplemental ICI - Premiums - Employee	1,230	1,353	1,489	1,638
Supplemental Sick Leave Conversion - Contributions	16,219	19,463	23,356	23,823
WRS - Employee Required Contributions	657,310	720,630	778,281	770,498
WRS - Employee Voluntary Contributions	11,091	11,313	11,539	11,770
WRS - Employer Required Contributions	677,191	720,630	778,281	770,498
WRS - Prior Service Contributions	8,971	9,617	10,310	11,052
Total Revenues	<u>\$3,850,268</u>	<u>\$8,132,832</u>	<u>\$8,498,494</u>	<u>\$8,736,933</u>
Expenditures				
Duty Disability - Administration	603	612	622	631
Duty Disability - Annuities	29,787	30,383	30,991	31,611
Health Insurance - Administration	20,651	20,856	21,100	21,391
Health Insurance - HMO Premiums	1,229,285	1,290,749	1,355,287	1,423,051
Health Insurance - Medical Claims	42,509	44,407	46,643	49,304
Health Insurance - Pharmacy Benefits	233,402	254,220	268,931	286,763
ICI - Administration	2,241	2,470	2,522	2,575
ICI - Claims Payment	18,026	19,648	21,416	23,344
LTDI - Administration	2,128	2,160	2,210	2,262
LTDI - Claims Payment	26,761	27,854	28,992	30,176
Milwaukee Retirement - Withdrawals	11,500	0	0	0
Police & Fire - Beneficiary Annuities	64	52	43	35
Police & Fire - Disability Annuities	525	493	464	436
Police & Fire - Retirement Annuities	5,275	4,353	3,593	2,965
Sick Leave Conversion - Administration	206	209	212	215
Sick Leave Conversion - Health Insurance Premiums	102,185	107,294	112,659	118,292
Supplemental ICI - Claims Payment	1,248	1,435	1,650	1,898
Supplemental Sick Leave Conversion - Administration	123	125	127	129
Supplemental Sick Leave Conversion - Health Insurance	34,043	35,674	37,382	39,173
WRS - Beneficiary Annuities	16,101	16,250	16,401	16,553
WRS - Death Benefits	14,563	14,855	15,152	15,455
WRS - Disability Annuities	138,132	139,513	140,908	142,317
WRS - Retirement Annuities	3,685,613	3,878,149	4,080,772	4,294,041
WRS - Retirement Lump Sum Benefits	38,471	44,520	44,966	45,415
WRS - Separation Benefits	29,084	29,375	29,669	29,966
WRS Administration	17,351	17,611	17,875	18,144
Total Expenditures	<u>\$5,699,879</u>	<u>\$5,983,271</u>	<u>\$6,280,587</u>	<u>\$6,596,139</u>
Ending Balance	<u>\$69,077,265</u>	<u>\$71,226,826</u>	<u>\$73,444,733</u>	<u>\$75,585,527</u>

Segregated Funds Revenue and Balances Statement

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
NUMERIC		
PROGRAM	01	Employee benefit plans
SUBPROGRAM	01	Benefit payments
WISMA RT FUND	751	

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
Opening Balance	\$5,164,500,000	\$4,864,500,000	\$5,066,200,000	\$5,267,400,000
Investment Earnings	(\$166,600)	\$350,200,000	\$364,800,000	\$379,300,000
Contributions	\$202,900,000	\$200,900,000	\$202,900,000	\$204,900,000
Total Revenue	\$5,367,233,400	\$5,415,600,000	\$5,633,900,000	\$5,851,600,000
Expenditures	\$336,300,000	\$349,400,000	\$0	\$0
WRS	\$0	\$0	\$366,500,000	\$384,600,000
Total Expenditures	\$336,300,000	\$349,400,000	\$366,500,000	\$384,600,000
Closing Balance	\$5,030,933,400	\$5,066,200,000	\$5,267,400,000	\$5,467,000,000

Segregated Fund Revenue and Expenditure Summary				
(In Thousands \$)				
	Prior Year Actual (FY 2011-12)	Base Year Estimate (FY 2012-13)	1st Year Estimate (FY 2013-14)	2nd Year Estimate (FY 2014-15)
Variable Retirement Trust Fund (751)				
Beginning Balance	\$ 5,164,498	\$ 4,864,479	\$ 5,066,268	\$ 5,267,410
Revenues				
Investment Earnings	(166,616)	350,242	364,771	379,254
Milwaukee Retirement - Deposits	4,000	-	-	-
WRS - Employee Required Contributions	98,778	99,766	100,763	101,771
WRS - Employee Voluntary Contributions	1,363	1,376	1,390	1,404
WRS - Employer Required Contributions	98,778	99,766	100,763	101,771
Total Revenues	\$ 36,302	\$ 551,150	\$ 567,688	\$ 584,199
Expenditures				
Milwaukee Retirement - Withdrawals	2,500	-	-	-
WRS - Administration	3,840	3,924	4,010	4,098
WRS - Beneficiary Annuities	1,671	1,833	2,011	2,206
WRS - Death Benefits	1,530	650	583	528
WRS - Disability Annuities	5,842	5,901	5,960	6,019
WRS - Retirement Annuities	318,498	334,423	351,144	368,701
WRS - Retirement Lump Sum Benefits	1,069	1,122	1,178	1,237
WRS - Separation Benefits	1,371	1,508	1,659	1,825
Total Expenditures	\$ 336,321	\$ 349,361	\$ 366,545	\$ 384,615
Ending Balance	\$ 4,864,479	\$ 5,066,268	\$ 5,267,410	\$ 5,466,994

Decision Item (DIN) - 2000

Decision Item (DIN) Title - Adjusted Base Funding Level

NARRATIVE

Adjusted Base Funding Level

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	2000	Adjusted Base Funding Level

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$13,558,700	\$13,558,700
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$121,700	\$121,700
05	Fringe Benefits	\$5,297,500	\$5,297,500
06	Supplies and Services	\$15,193,500	\$15,193,500
07	Permanent Property	\$1,660,800	\$1,660,800
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$433,100	\$433,100
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$36,265,300	\$36,265,300
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	257.20	257.20
20	Unclassified Positions Authorized	3.00	3.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	2000	Adjusted Base Funding Level			
01	Employee benefit plans				
	01 Annuity supplements and payments	\$433,100	\$433,100	0.00	0.00
	04 BadgerRx Gold advances for individuals	\$0	\$0	0.00	0.00
	61 Automated operating system	\$4,093,600	\$4,093,600	0.00	0.00
	62 Benefit administration	\$4,900	\$4,900	0.00	0.00
	64 Health insurance data collection and analysis contracts	\$968,100	\$968,100	0.00	0.00
	76 Administration	\$27,381,200	\$27,381,200	260.20	260.20
	88 Administration	\$3,384,400	\$3,384,400	0.00	0.00
	Employee benefit plans SubTotal	\$36,265,300	\$36,265,300	260.20	260.20
	Adjusted Base Funding Level SubTotal	\$36,265,300	\$36,265,300	260.20	260.20
	Agency Total	\$36,265,300	\$36,265,300	260.20	260.20

	Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	
Decision Item	2000	Adjusted Base Funding Level				
	GPR	A	\$433,100	\$433,100	0.00	0.00
	GPR	S	\$0	\$0	0.00	0.00
	SEG	S	\$35,832,200	\$35,832,200	260.20	260.20
	Total		\$36,265,300	\$36,265,300	260.20	260.20
Agency Total			\$36,265,300	\$36,265,300	260.20	260.20

Decision Item (DIN) - 3001

Decision Item (DIN) Title - Turnover Reduction

NARRATIVE

Standard Budget Adjustment - Turnover Reduction

This decision item removes 3% of permanent position salaries under the assumption that savings will result from position vacancies in appropriations with at least 50 FTE.

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	3001	Turnover Reduction

	Expenditure items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	(\$406,800)	(\$406,800)
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	(\$406,800)	(\$406,800)
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3001	Turnover Reduction			
01	Employee benefit plans				
	76 Administration	(\$406,800)	(\$406,800)	0.00	0.00
	Employee benefit plans SubTotal	(\$406,800)	(\$406,800)	0.00	0.00
	Turnover Reduction SubTotal	(\$406,800)	(\$406,800)	0.00	0.00
	Agency Total	(\$406,800)	(\$406,800)	0.00	0.00

	Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	
Decision Item	3001	Turnover Reduction				
	SEG	S	(\$406,800)	(\$406,800)	0.00	0.00
	Total		(\$406,800)	(\$406,800)	0.00	0.00
Agency Total			(\$406,800)	(\$406,800)	0.00	0.00

Decision Item (DIN) - 3003

Decision Item (DIN) Title - Full Funding of Continuing Position Salaries and Fringe Benefits

NARRATIVE

Standard Budget Adjustment - Full Funding of Continuing Position Salaries and Fringe Benefits This decision item increases or decreases adjusted base year salary and fringe benefit levels to documented actual levels. The new agency fringe rate is applied to the adjusted salary levels.

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	3003	Full Funding of Continuing Position Salaries and Fringe Benefits

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$981,100	\$981,100
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$239,100	\$239,100
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$1,220,200	\$1,220,200
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3003	Full Funding of Continuing Position Salaries and Fringe Benefits			
01	Employee benefit plans				
	76 Administration	\$1,220,200	\$1,220,200	0.00	0.00
	Employee benefit plans SubTotal	\$1,220,200	\$1,220,200	0.00	0.00
	Full Funding of Continuing Position Salaries and Fringe Benefits SubTotal	\$1,220,200	\$1,220,200	0.00	0.00
	Agency Total	\$1,220,200	\$1,220,200	0.00	0.00

	Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	
Decision Item	3003	Full Funding of Continuing Position Salaries and Fringe Benefits				
	SEG	S	\$1,220,200	\$1,220,200	0.00	0.00
	Total		\$1,220,200	\$1,220,200	0.00	0.00
Agency Total			\$1,220,200	\$1,220,200	0.00	0.00

Decision Item (DIN) - 3007
Decision Item (DIN) Title - Overtime

NARRATIVE

Standard Budget Adjustment - Overtime

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	3007	Overtime

	Expenditure items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$39,500	\$39,500
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$6,200	\$6,200
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$45,700	\$45,700
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3007	Overtime			
01	Employee benefit plans				
	76 Administration	\$45,700	\$45,700	0.00	0.00
	Employee benefit plans SubTotal	\$45,700	\$45,700	0.00	0.00
	Overtime SubTotal	\$45,700	\$45,700	0.00	0.00
	Agency Total	\$45,700	\$45,700	0.00	0.00

	Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
Decision Item	3007	Overtime				
	SEG	S	\$45,700	\$45,700	0.00	0.00
	Total		\$45,700	\$45,700	0.00	0.00
Agency Total			\$45,700	\$45,700	0.00	0.00

Decision Item (DIN) - 3008

Decision Item (DIN) Title - Night and Weekend Differential Pay

NARRATIVE

Standard Budget Adjustment - Night and Weekend Differential Pay This decision item adjusts for salary and fringe increments for employees entitled to a wage premium. These increases cover holiday, night, weekend differential, specialty standby/on-call and permanent payments.

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	3008	Night and Weekend Differential Pay

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$62,600	\$62,600
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$9,900	\$9,900
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$72,500	\$72,500
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3008	Night and Weekend Differential Pay			
01	Employee benefit plans				
	76 Administration	\$72,500	\$72,500	0.00	0.00
	Employee benefit plans SubTotal	\$72,500	\$72,500	0.00	0.00
	Night and Weekend Differential Pay SubTotal	\$72,500	\$72,500	0.00	0.00
	Agency Total	\$72,500	\$72,500	0.00	0.00

	Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
Decision Item	3008	Night and Weekend Differential Pay				
	SEG	S	\$72,500	\$72,500	0.00	0.00
	Total		\$72,500	\$72,500	0.00	0.00
Agency Total			\$72,500	\$72,500	0.00	0.00

Decision Item (DIN) - 3010

Decision Item (DIN) Title - Full Funding of Lease and Directed Moves Costs

NARRATIVE

Standard Budget Adjustment - Full Funding of Lease and Directed Moves Costs

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	3010	Full Funding of Lease and Directed Moves Costs

	Expenditure items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$643,400	\$676,500
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$643,400	\$676,500
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3010	Full Funding of Lease and Directed Moves Costs			
01	Employee benefit plans				
	76 Administration	\$643,400	\$676,500	0.00	0.00
	Employee benefit plans SubTotal	\$643,400	\$676,500	0.00	0.00
	Full Funding of Lease and Directed Moves Costs SubTotal	\$643,400	\$676,500	0.00	0.00
	Agency Total	\$643,400	\$676,500	0.00	0.00

Decision Item	Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	
	3010	Full Funding of Lease and Directed Moves Costs				
	SEG	S	\$643,400	\$676,500	0.00	0.00
	Total		\$643,400	\$676,500	0.00	0.00
Agency Total			\$643,400	\$676,500	0.00	0.00

Decision Item (DIN) - 4001

Decision Item (DIN) Title - Continuation of Business Process Modernization and Technology Integration Efforts

NARRATIVE

Continuation of Business Process Modernization and Technology Integration Efforts

Continuation of Business Process Modernization and Technology Integration Efforts

Biennial Budget Paper 2013-2015

DIN 4001

Wisconsin Employee Trust Funds

September 24, 2012

I. Request

Pursuant to s. 40.04 (2) (c), Wis. Stats., the Secretary of the Department of Employee Trust Funds (ETF or Department) has estimated the administrative costs to be incurred by ETF during the 2013-15 fiscal biennium. Based upon this estimate, ETF requests funding of \$3,500,000 SEG in fiscal year 2013-14 and \$5,000,000 SEG in fiscal year 2014-15 under s. 20.515 (1)(t) on-going; funding for \$723,000 SEG in fiscal year 2013-14 and \$850,700 SEG in fiscal year 2014-15 under s. 20.515 (1)(w), Wis. Stats for 2.0 SEG FTE positions to provide outreach to members outside of Dane County; and up to 12.50 limited-term equivalent (LTE) positions, (includes fringe, and supplies and services). The Department also requests to modify the ETF general operations appropriation under s. 20.515 (1)(w), Wis. Stats., from annual to biennial. Finally, the Department requests authorization for the ETF Secretary to create or abolish positions via a 14-day passive review.

This request is necessary for ETF to successfully modernize its business processes and integrate its information technology (IT) systems. Successful implementation will enable ETF to do the following: 1) reduce administrative costs for public employers throughout the state; 2) meet the significant growth in demand for ETF services with limited need for additional staff; 3) meet the growing demand for on-line services; 4) increase operational efficiency; and 5) achieve overall improvement in customer service delivery.

With prior budgetary support, ETF has completed a significant amount of preliminary work toward achieving these goals. The agency has completed a business risk assessment, established a project management office, implemented standard project management methodology, hired appropriate staff, begun mapping all major business processes, established internal committees necessary for project development and oversight, and engaged a strategic partner to assist in the successful procurement and implementation of appropriate benefits administration software. Next steps include completion of business process mapping, analysis of data integrity, implementation of new infrastructure for ETF's financial systems, procurement and phased implementation of an integrated benefits administration system, and business process re-engineering to achieve maximum efficiency. These steps are significant and will require more than one biennium to complete. As a result, ETF will continue to require ongoing funding to appropriately manage expenses and flexibility to adjust staffing as necessary and appropriate.

Approval of this request will enable ETF to meet the demands of the retiring baby boom generation and to do so in a way that is consistent with ETF's low cost commitment to customer service. Once all phases of this initiative are complete, ETF's business processes will be significantly more efficient, public employees and retirees will be able to access and service their own accounts on-line in the manner they have come to expect from their private sector financial institutions, and over 1,500 public employers will have a more efficient interface with ETF's systems.

II. Background

Public Employee Trust Fund

The Department's sole statutory mission is to administer the Public Employee Trust Fund (Trust) in a manner that provides legislatively-created, employment-related benefits at the lowest reasonable cost. Chapter 40 effectively serves as the controlling document for the Trust. The Board members serve as trustees or fiduciaries of the Trust. As a result, they must act solely and exclusively for the benefit of Trust beneficiaries.

Funds in the Trust are not state funds – they are funds held in trust by the state to provide the legislatively-created benefits under Chapter 40. This has been established by various court decisions, Attorney General Opinions, and general trust law. No tax dollars are used to support ETF's operations. Administrative expenses are funded entirely from the investment earnings of the Trust. Administrative expenses have little bearing on the total contribution rate. The total annual increase in funding requested in this DIN, even if it were all spent in a single year, would have a negligible effect on contribution rates (adding less than one-tenth of one percent, approximately, to the contribution rate).

ETF Strategic Business Plan

During the early part of FY 2010, ETF developed a strategic vision and business plan to help identify key challenges facing ETF and determine the strategic priorities and goals for meeting those challenges. The Department's strategic vision is to be a leader among large public employee benefit systems by offering best practice customer services. The strategic business plan is essential to achieving this vision and meeting increasing demand for ETF services as the baby boom generation retires. With prior budgetary support, ETF has made great strides toward accomplishing the following key strategic priorities and goals from the plan:

- Expand outreach to better serve participants and employers in locations outside of the Madison area.
- Strengthen internal staff training programs to maintain a highly skilled and knowledgeable workforce.

The Department has added staff to the call center so that more members can receive services from home more quickly, cutting the average time to answer nearly in half during our busiest months from 2010 to 2012 and freeing staff outside of the call center to spend more time with members who need help in person; has instituted group retirement field presentations in every region of the state, serving over 4,000 members since January 2011 in locations nearer to where they reside; and has instituted a formal internal staff training program, conducting 228 internal staff training seminars to help ensure that, even with many experienced staff retiring, the remaining staff have the knowledge required to efficiently administer the various benefit programs. These efforts are ongoing, and the demand for retirement counseling services outside of Dane County continues to outstrip ETF's capacity.

As noted earlier, ETF has also accomplished much of the preliminary work necessary to achieving the remaining strategic priority and goal identified in the plan:

- Offering more self-service tools for participants including secure on-line access to their accounts and additional retirement planning tools.

This strategic priority and goal acknowledges that continuing to add staff is not a reasonable solution to the steady growth in demand ETF faces. In order to meet increasing demand for services, ETF must invest in information technology to provide more and better services to members and employers, including online, self-service options. These self-service options will reduce the need for additional staff

and provide the types of convenient services our members and employers have come to expect from their banking and financial institutions. ETF must also modernize its business processes, consistent with LEAN principles, so that operations are as efficient as possible. By implementing more modern business processes, ETF will free staff from inefficient processing, allowing them to be more efficient in meeting growing demands for service. In addition, modern business processes will benefit nearly every public employer in the state who interacts with ETF. That, in turn, frees their staff to accomplish other tasks. For these efforts to succeed, though, a modest ongoing increase in ETF's operating budget is required.

Administrative Cost Comparison

The Department seeks to provide a high level of excellent customer service at as low a cost as is reasonably possible. Keeping costs low is essential to the proper administration of the Trust. Since 2007, ETF has contracted with Cost Effective Measurement (CEM) to help assess and provide context for ETF's customer service levels and administrative costs. CEM performs a benchmarking analysis of the pension administration function in a manner that compares similar pension systems. A detailed report is prepared each fiscal year comparing ETF to peer systems. The report helps provide context for the level of service ETF provides and helps ensure that ETF remains a low cost administrator of retirement benefits.

The FY 2011 CEM analysis demonstrates that:

- The Department has thus far achieved its goal of remaining a low-cost operation in terms of administrative expenses, even while investing additional resources in achieving its strategic plan. Despite increased spending to accomplish its strategic plan, ETF's administrative cost was 65% of the average of its peers.
- The Department provides a considerably lower level of service to participants compared to its peers. Based upon CEM's total customer service score, ETF's service level is 69 out of a possible 100. Key areas where ETF's service scores lag well behind peer systems include the percentage of undesired outcomes in the call center (despite improvements in average time to answer) and the overall lack of any ability for ETF's customers to transact business with ETF via the website. Each of these issues is exacerbated by the outmoded IT systems ETF currently uses. Although the CEM analysis focuses mainly on retirement benefits administration, improvements in these areas are also necessary for proper administration of the other complex benefit plans overseen by ETF.
- The Department is highly productive, despite employing fewer administrative staff per participant than the peer average, providing those staff with outmoded IT tools and following what are often inefficient business processes. For FY 2011 ETF's number of pension administration FTEs per member was 76% of the average of its peers. After adjusting for economies of scale resulting from the size of the WRS, ETF's productivity was 28% above the weighted peer average. High productivity with low staffing demonstrates ETF's commitment to get the most out of each dollar and each staff position. These metrics also demonstrate, though, how near to the breaking point ETF will be pushed as demand increases, if ETF's staff do not have more modern processes and technology tools.

The CEM analysis gives ETF confidence that, by investing the requested additional resources strategically, ETF will be able to provide critical services to a growing customer base while remaining well below the median cost of its peers. In addition, these investments will have little or no impact upon contribution rates or annuity adjustments and are consistent with fiduciary responsibilities.

III. Analysis of Need

Cost Savings for Public Employers

More than 1,500 public employers in Wisconsin participate in the benefit plans administered by ETF. Primarily, these employers report service and earnings for roughly 260,000 active employees, pay required contributions, and work with ETF as their employees transition to retirement. Unfortunately, many of ETF's IT systems use dated technology that prevents ETF from implementing process improvements that would save costs not only for ETF but also for participating employers. The dated technology and related inefficient processes at ETF also prevent ETF from implementing law changes in a timely fashion, which is a burden for the Legislature and Governor. These problems will be exacerbated over coming years as demand for ETF's services grows.

One significant outmoded technology is ETF's member account management computer program. The Wisconsin Employee Benefit System (WEBS) was initially installed in 1985. WEBS was programmed in COBOL, a programming language first widely used in the 1960's. COBOL, while still used in older computer programs, today is rarely used for new programs and is no longer taught at most universities, including MATC or the UW, thus making legislative changes difficult. What appears to be a simple change to WEBS can take a striking number of hours of work to develop, test, and implement. Changes are often cost prohibitive or technologically impossible.

In addition, all of ETF's computer systems lack the level of integration common to modern benefit administration systems, where complex business processes seamlessly flow from one part of the system to another. In ETF's system, when a member requests a retirement benefit estimate, an ETF employee looks up the member account information in one program, manually types it into a second program that calculates the estimate, which is manually checked for accuracy, then printed and mailed to the member. A second printed copy of the estimate is scanned into a third program for archiving for future use. This is a labor intensive, costly, and slow process, with the member typically waiting approximately five weeks to receive the estimate. This lack of integration is also reflected in the way ETF stores member demographic information such as name and address. This demographic information is stored many times across ETF's silo-like computer programs, leading to complex data management issues and less-timely member and employer service.

This type of inefficiency is replicated in many of the business processes and technology systems used by public employers. The Department depends on employers, such as the Department of Administration Central Payroll staff, to submit Wisconsin Retirement System contributions and report hours and earnings for state employees. Central Payroll does this for approximately 40,000 employees. Under ETF's existing system, these reports are reconciled once per year to ensure that each employee's hours and earnings match with the contributions ETF received for the employee through the year. This annual reconciliation process may have been efficient in an age of paper files but is no longer a best practice and does not provide individual employee information in real time. In a good year, the annual reconciliation process consumes approximately three months of time for both ETF staff and WRS employers (January-March). In 2011-12, the reconciliation process lasted nine months because of complexities related to implementation of 2011 Wisconsin Act 10. With a more modern, integrated technology system, ETF would be able to eliminate the annual reconciliation process and replace it with something much closer to real-time reconciliation, thus saving employer and ETF staff time. A modern reconciliation process could be tied to the employer's payroll cycle and could be compatible with the employer's information technology reporting capabilities, which would eliminate the cost employers incur to track all ETF related business outside of their regular pay period and payroll processes. Implementing such a modern process is not feasible, however, with ETF's current IT systems. For further information, please see the attached case study on the impact of ETF's IT systems on employers, the Governor, and the Legislature (Attachment A).

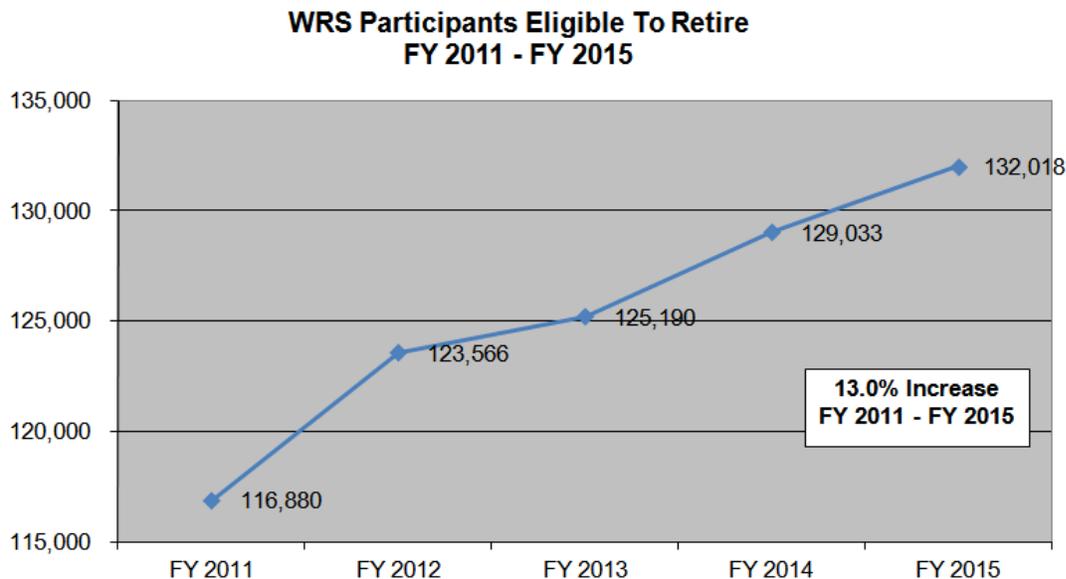
These technology system limitations - the limited system integration; lack of centralized, member demographic information, and antiquated, difficult to change technologies - collectively act to limit ETF's ability to offer member and employer on-line, self-services. Today, allowing a member the conceptually simple ability to change their mailing address on-line would require prohibitively complex and costly changes to ETF's systems. As described below, the retirement of the baby boom generation is expected to greatly increase the demand for ETF's services. Modernizing ETF's business processes and integrating its technology systems are the keys to achieving efficient solutions not only for ETF staff and employees who participate in the WRS, but also for 1,500 public employers across the state. These modernization and integration efforts will also help ensure that ETF is capable of administering the laws enacted by the Legislature and the Governor.

Growing Demand as the Baby Boom Generation Retires

Participants in the WRS rely on the information and services provided by ETF to help them make informed and timely decisions regarding their benefits. Prior to submitting an application for retirement, participants request and receive a detailed, personalized retirement estimate. Members often meet with a retirement specialist in order to make critical decisions regarding their choice of annuity options, health insurance, life insurance, service purchases, beneficiary designations, and other related matters. As such, transitioning a member from active status to retirement status is among the most staff resource-intensive set of tasks performed by ETF. Furthermore, after a member retires, he or she requires a new set of services from ETF. Those services typically must be provided on an ongoing basis for many years.

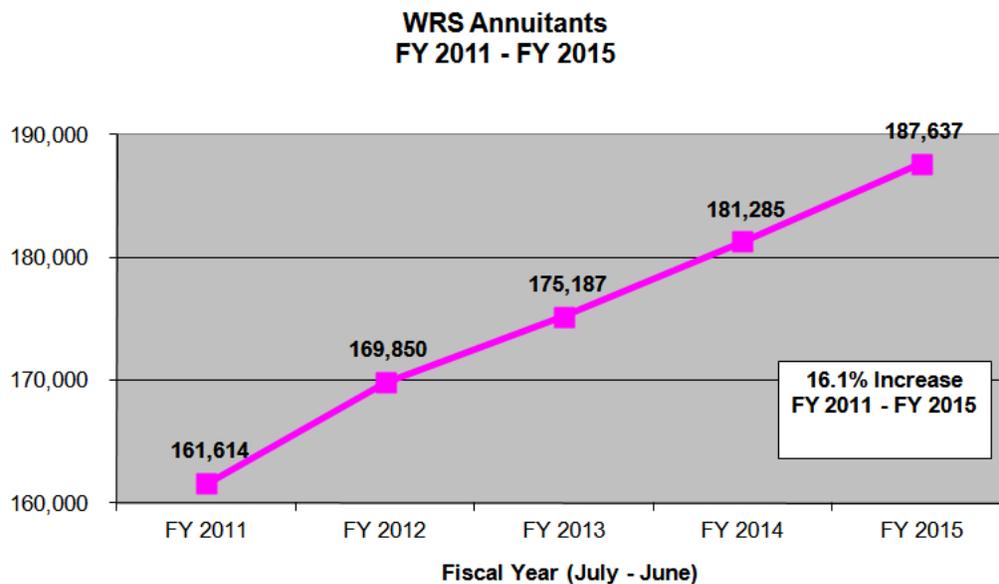
In order to project resource needs, ETF reviews certain key indicators and constructs models to help predict anticipated caseload. The charts below summarize two of the key indicators used in the preparation of this request. By all indications, ETF continues to face an unprecedented growth in demand for services.

The first key indicator is the number of participants who will be eligible to retire in a given fiscal year. The eligible-to-retire population is closely correlated to workload associated with the administration of the retirement benefits program. It is this population that requests services such as retirement estimates, individualized counseling sessions, and service credit purchases. The graph below summarizes the anticipated growth in the eligible-to-retire population.



Under this projection the population eligible to retire will increase by 13% from FY 2011 through FY 2015. By 2015, the population eligible to retire will be 18% greater than it was in FY 2009. As a result, the Department expects the annual number of new annuities to increase as much as 35%¹ over the level experienced in FY 2009.

The second key indicator is the total number of annuities in force. An increase in the annuitant population generates additional workload for ETF. The Department effectively serves as the payroll center for the annuitant population as well as the key communication link to an annuitant's benefits (retirement annuity, health insurance, life insurance, vision care, long-term care insurance, and the accumulated sick leave credit conversion programs) and any associated changes. The related processing tasks include annual dividend adjustments, annual health insurance enrollment, tax and other deduction adjustments, producing the required Internal Revenue Service 1099R forms, address changes, beneficiary changes, and related customer requested tasks. The next graph summarizes the expected changes in the annuitant population for the period FY 2011 – 2015.



It is anticipated that the annuitant population will reach 187,637 by the end of FY 2015, representing a 27% increase over FY 2009. Although the graph shows a relatively straight line progression, this increase is actually unlikely to occur in consistent, predictable increments. It is also unlikely to occur in a way that neatly aligns with the biennial budget process and the s. 13.10 schedule.

ETF is beginning to experience significant growth in demand for its services. Because of the complexity of WRS benefits and the uniqueness of participant situations, some benefit calculations require manual adjustments or review to ensure the appropriate rules are applied to each individual situation. This complexity applies to ETF and to the approximately 1,500 public employers who participate in the WRS. To appropriately serve its customers as demand grows, ETF's business processes must be modernized and information technology systems must be integrated so that routine cases and processing can be addressed with as little staff involvement as possible.

IV. Budget Proposal

¹ The eligible to retire comes from both active and inactive members. In 2011, it's 116,880 out of 410,280 active/inactive members who are eligible to retire.

Resources and Other Changes

As described above in the Request section, ETF is requesting resources to implement modernized business processes and integrated IT systems to allow ETF to adequately serve its customers.

In addition to the increased expenditure authority, ETF further requests that its general program operations appropriation under s. 20.515 (1)(w), Wis. Stats., be modified from annual to biennial. A biennial appropriation will provide ETF with additional flexibility to properly manage its finances, while maintaining a limit on overall expenditure authority. This flexibility is an important tool for ensuring that additional funding requests are avoided if at all possible.

Finally, ETF requests the authority to address any unexpected funding needs that may arise via a passive review process. This authority would apply to all fund appropriations within the SEG fund. The Department's modernization efforts are complex. Unforeseen funding needs may develop. If they do, ETF would forward a recommendation regarding the funding to the Governor and the Joint Committee on Finance. If the Governor and the Joint Committee on Finance had no objections during the 14-day review period, the recommendation would be considered approved. If objections are raised that cannot be resolved, a meeting would be scheduled.

Position Authority

Continually adding permanent staff is not the preferred method of achieving ETF's strategic priorities and goals in light of the technology that is available in the marketplace. The Department requests only 2 FTE positions to meet increased demand for counseling services in locations outside of Dane County.

As ETF's modernization and integration initiative proceeds, however, staffing needs are likely to fluctuate as experienced and knowledgeable staff are reassigned from day-to-day tasks to the modernization effort. The Department will need to make strategic staffing decisions to help ensure success. Although ETF has begun cross-training staff so they can fill in for others as attention and time are devoted to modernization efforts, ETF must continue to use LTEs, as well, to help meet shorter-term staffing needs. Thus, ETF requests funding for up to 12.50 LTE positions to meet increased demand to back-fill where permanent staff are reassigned to the modernization effort.

In addition, ETF requires flexibility in FTE position authority to meet any mid-term spikes in demand that may arise as modernization and integration efforts proceed. The Department also requests flexibility with regard to deleting vacant positions as our modernization and integration efforts make our business operations more efficient. Specifically, ETF proposes creating a passive review process for creating and/or deleting positions funded by the Trust. If the Secretary of ETF determines there is a need to create or delete positions, the Secretary would submit a request to both the Governor and the Joint Committee on Finance. If the Governor and the Joint Committee on Finance had no objections during the 14-day review period, the recommendation would be considered approved. If objections are raised that cannot be resolved, a meeting would be scheduled. The total number of authorized positions could be capped, following the methodology created pursuant to 2009 Wisconsin Act 28, if that is desirable, or using some other limit. This methodology was accepted by the Joint Committee on Finance during the FY 2009 – 11 biennium. Although the Department is unlikely to request anywhere near that level of positions, the methodology has been updated to reflect current program data (see Attachment B), should it be desirable to include the methodology as a cap.

These positions will facilitate a more efficient and effective process to adjust staffing as needs increase and diminish over the life of ETF's modernization and integration initiative. Likewise, because demand for services may spike at any given point in time (for example, due to proposed legislation affecting

benefit programs or other factors), ETF may temporarily require additional positions so that the modernization and integration efforts are not derailed. Those spikes in demand are not necessarily going to coincide with the state budget cycle or s. 13.10 schedule and they may vary in duration. Finally, as the modernization and integration initiative proceeds, certain positions dedicated to the initiative may no longer be necessary. The ETF Secretary should be authorized to abolish vacant positions that are no longer needed.

V. Alternatives

If the passive review process for position flexibility is unacceptable, ETF would request the authority to request up to eight (8) 4-year project positions via passive review. ETF could utilize this authority if the need arises over the life of the modernization and integration efforts.

It may be desirable to require that ETF provide an annual report to the Governor and the Joint Committee on Finance on the status of the modernization and integration efforts and the use of position authority flexibility.

VI. Conclusion

Article I, Section 22 of the Wisconsin Constitution states, "The blessings of a free government can only be maintained by . . . frequent recurrence to fundamental principles." By "free," the Framers meant a government based upon liberty and fair taxation, not government without financial cost altogether. As needs change, different investments are required to achieve fundamental program goals. Fundamental principles underlying the administration of the Trust, as provided in s. 40.01 (1), Wis. Stats., include promoting economy and efficiency in public service, promoting orderly and humane departure from service, and achieving administrative expense savings. The Department's commitment to these fundamental principles helps ensure the Trust is administered with low cost and a devotion to customer service. This in turn helps achieve the overall purpose of the Trust, which is to help public employees in protecting themselves and their beneficiaries against the financial hardships of old age, disability, death, illness and accident.

The Department and the 1,500 public employers it works with face a great administrative challenge, though, with the retirement of the baby boom generation and the hiring and enrollment of their replacements. This challenge is all the more daunting due to ETF's many outmoded business processes and dis-integrated information technology systems. The most responsible way to meet this challenge is to modernize processes and integrate technology systems so that staff has the time and the tools to succeed. Successfully addressing this challenge will not only facilitate the orderly retirement of the baby boom generation but also pay dividends for future generations of employees, employers, and staff of ETF. With continued commitment and support from the Governor and Legislature, ETF can meet this challenge and achieve its strategic goal of providing more self-service tools for employers and members in an efficient manner.

cc: Attachment A
Attachment B

ACT 10 Case Study

Biennial Budget 2013-15

Attachment A

The implementation of Act 10 is an informative case study in the impact ETF's archaic technology systems had upon employers, lawmakers, and the Governor. Among other things, Act 10 changed the allocation of the Wisconsin Retirement System (WRS) contribution rate between the employee and employer in the middle of the year. This policy change required WRS employers to separately track WRS service, earnings, and contributions before and after the effective date of Act 10 and report that information to ETF. This simple policy change should have been easy to implement and administer. Unfortunately, due to ETF's problematic technology systems, it took more than a year to implement this reporting requirement and reconcile the data ultimately reported by employers. Employers and ETF incurred significant costs as a result of this implementation process.

For example, ETF devoted one full-time employee to the reconciliation of the University of Wisconsin (UW) System's information over the course of nine months in 2012. The employee worked solely on the UW System's file and he frequently had to work overtime to complete the file. In addition, five other staff (including the Supervisor, Leadworker, LTE's and contract staff) helped reconcile the UW System's file over the course of nine months. To our knowledge, UW at times had three employees devoted to this process over the nine month span and seven employees devoted to the process during the last step. Extrapolated over nearly every city, county, township and school district in the state, this amounts to a significant cost to public employers that could have been greatly reduced had ETF's systems been more nimble and, hence, the reporting process made more efficient. Furthermore, the effort required to implement Act 10 caused severe delays in several other services, such as lump sum separation payments and the annual Statement of Benefits distribution, which in turn resulted in constituent concerns being raised with legislators and the Governor's Office, thus creating additional work for more than just ETF and employers. It is unacceptable to rely upon a system that is nearly incapable of handling policy changes that are enacted into law.

Department of Employee Trust Funds

Position Level

JCF 13.10 Mailing

Attachment B

Methodology for Determining the Appropriate Position Level

This document describes the general methodology for determining the appropriate authorized position level required to effectively and efficiently administer the various benefit programs created under Chapter 40 of the Wisconsin State Statutes. This methodology was prepared pursuant to 2009 Wisconsin Act 28 (Fiscal 2009-11 Biennial Budget Bill) Section 9115 (non-statutory provisions – Employee Trust Funds).

Background

The Department of Employee Trust Funds (ETF) administers benefit programs for state and local government employees.

While the Department administers various benefit programs, approximately 85% of the administrative appropriation expenditures are associated with the Wisconsin Retirement System (WRS) which includes the retirement and certain disability programs. As such, the focus of the methodology is on the WRS programs.

The Methodology

The Department determines position (and expenditure) needs in a “bottom up” fashion. Workload metrics are collected at the work unit level. Models for each unit vary to account for the differences in the work performed. Historical trends are analyzed and projections made for future workload. These projections are based in part on historical trends and in part on actuarial data produced by the WRS consulting actuary. The actuarial data provides more accurate information regarding the possible numbers of individuals who may desire to access our services in a given year. For example, we focus heavily on the projected numbers of participants who are approaching retirement age as this group tends to be a heavy user of agency services. Historical trends are better indicators of the resources required to process each transaction. Work unit managers work in conjunction with budget and policy staff to perform this analysis. This analysis produces preliminary estimates of staff resources required to meet projected demand for services.

The results of the above are then compared with the results of a high level projection model. This model uses projected changes in the participant population mix and levels to determine the staff resources required. Differences between this high level method are compared to the “bottom up” approach described above. Differences between the two methods are analyzed by staff. Initial estimates of resource needs are revised accordingly.

Finally, the Department participates in a national benchmarking study which compares cost and service levels of ETF to those of peer public pension systems. This component provides information useful in determining if the service levels provided by ETF are adequate and if our costs to provide those services are reasonable. Since the benchmarking study only includes retirement and disability programs, an adjustment is made to account for the other benefit programs administered by the Department. Workload metrics, service levels, and costs are reviewed periodically. Administrative workflow/process changes, information technology solutions, and modifications to the benefit program design all require changes to the various models used in determining Department resource needs. In addition, the retiree population is expected to double over the next 12 to 15 years due to the retirement of public employees

born during the “baby boom”. Since the retiree population and the population at or near retirement are heavy users of agency services, it is expected that workload metrics will be revised coincident with changes in the economy of scale for various services.

This methodology suggests that the appropriate level of positions is approximately 1.0 FTE per 1,560 members. However, the Department Secretary has directed that the position level be set at 90% of the above level to ensure that services are provided in a cost effective manner. As such, the adjusted position level under this methodology is 1.0 FTE per 1,730 members

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	4001	Continuation of Business Process Modernization and Technology Integration Efforts

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$68,700	\$91,600
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$430,500	\$574,100
05	Fringe Benefits	\$59,000	\$78,700
06	Supplies and Services	\$3,579,800	\$5,106,400
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$85,000	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$4,223,000	\$5,850,800
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	2.00	2.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	4001	Continuation of Business Process Modernization and Technology Integration Efforts			
01	Employee benefit plans				
	61 Automated operating system	\$3,500,000	\$5,000,000	0.00	0.00
	76 Administration	\$723,000	\$850,800	2.00	2.00
	Employee benefit plans SubTotal	\$4,223,000	\$5,850,800	2.00	2.00
	Continuation of Business Process Modernization and Technology Integration Efforts SubTotal	\$4,223,000	\$5,850,800	2.00	2.00
	Agency Total	\$4,223,000	\$5,850,800	2.00	2.00

Decision Item	Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
4001	Continuation of Business Process Modernization and Technology Integration Efforts				
SEG	S	\$4,223,000	\$5,850,800	2.00	2.00
Total		\$4,223,000	\$5,850,800	2.00	2.00
Agency Total		\$4,223,000	\$5,850,800	2.00	2.00

Decision Item (DIN) - 4004

Decision Item (DIN) Title - Headquarters Facility

NARRATIVE

The Department is in the process of working with the Department of Administration Divisions of Facilities Development and Facilities Management on options to house all ETF employees in one location to better serve Wisconsin Retirement System participants and employers.

Headquarters Facilities

Biennial Budget Paper 2013-2015

DIN 4004

Wisconsin Employee Trust Funds

September 24, 2012

Request

The Department of Employee Trust Funds (Department) requests a new SEG sum sufficient appropriation to cover costs associated with any moves and purchases of equipment and other materials or services relating to consolidating all ETF employees in one location.

Background and Analysis

The Department is in the process of discussions with the Department of Administration Divisions of Facilities Development and Facilities Management on options to consolidate ETF employees into one location. ETF employees are currently located in two state office buildings: Badger Road and Rimrock Road. The two locations create numerous operational and structural inefficiencies and additional logistical costs for ETF.

This appropriation would be used to cover costs related to any moves, and purchases of furniture, fixtures, design, and other related services or costs. Details regarding the timing of the move, location and other matters are still under consideration. The Department of Administration anticipates consideration by the Building Commission sometime during the upcoming 2013-15 biennial budget discussions. This appropriation will allow necessary costs to be funded from the Public Employee Trust Fund when these details are finalized.

Decision Item (DIN) - 5001

Decision Item (DIN) Title - Annuity Supplements

NARRATIVE

Re-estimate of GPR annuity supplement appropriation

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	5001	Annuity Supplements

	Expenditure items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	(\$112,000)	(\$183,000)
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	(\$112,000)	(\$183,000)
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	5001	Annuity Supplements			
01	Employee benefit plans				
	01 Annuity supplements and payments	(\$112,000)	(\$183,000)	0.00	0.00
	Employee benefit plans SubTotal	(\$112,000)	(\$183,000)	0.00	0.00
	Annuity Supplements SubTotal	(\$112,000)	(\$183,000)	0.00	0.00
	Agency Total	(\$112,000)	(\$183,000)	0.00	0.00

	Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	
Decision Item	5001	Annuity Supplements				
	GPR	A	(\$112,000)	(\$183,000)	0.00	0.00
	Total		(\$112,000)	(\$183,000)	0.00	0.00
Agency Total			(\$112,000)	(\$183,000)	0.00	0.00

Decision Item (DIN) - 6000

Decision Item (DIN) Title - Wellness in the Workplace

NARRATIVE

This request is for funding for the next phase of the 'statewide wellness initiative' for health plan participants.

Wellness in Workplace

Biennial Budget Paper 2013-2015

DIN 6000

Wisconsin Employee Trust Funds

September 24, 2012

Request

The Department requests 2.0 FTE SEG positions and \$95,200 SEG in fiscal year 2013-14 and \$127,000 SEG in fiscal year 2014-15, plus associated supplies and services costs of \$52,400 in FY14 and \$166,600 in FY15, to implement the next phase of the state employee wellness program.

This phase of wellness implementation will require a significant amount of data gathering, coordination with health plans, and communication with employees. Because the contours of this phase are still in development, the supplies and services costs are based upon a prior analysis by the Office of State Employment Relations that estimated these costs to be at least \$52,400 in FY14 and \$166,600 in FY 15. These amounts would cover program expenses related to such things as promotional materials, educational materials, website development, program reports, and hosting wellness fairs and educational seminars.

Background

The Department recognizes the benefits to both employers and employees of workplace programs that promote and support employee engagement in their own health and wellness. Many states and local governments are putting wellness first.

The Department has taken a multi-year, phased approach to introducing and expanding employee wellness initiatives. In phase one over the past few years, the Department introduced employees to voluntary health risk assessments (HRAs) and participation in available wellness programs, surveyed participating health plans on the availability of HRAs and participation levels in HRAs, encouraged participating health plans to develop incentive-based wellness programs to pilot and evaluate against established outcomes, and report back findings with regard to return on investment (ROI). The goal of the initial phase was to identify best practices and to influence future benefit design.

We are now completing phase two of wellness program development. For 2012, all health plans were required to have an HRA available to state employees. The Group Insurance Board also included co-insurance in the plan design, wherein state employees are responsible for 10% of their health insurance costs. The introduction of co-insurance was one reason the premium for state employee health coverage decreased 3.3% for 2012, for a savings of approximately \$50 million in health care costs for 2012.

For 2013, the wellness program will cover biometric screening for state employees, which will allow the state, as the employer, to better target disease management efforts based on employee health status. In addition, participating health plans are required to implement incentive-based HRAs to increase participation. This request will equip the Department to implement the next phase of this multi-year wellness initiative.

Purpose

Worksite wellness programs have been shown to increase productivity, reduce absenteeism and on-the-job injuries, and improve morale and the quality of life for employees. If properly designed and

administered, wellness programs can also play an important role in containing health care costs for employers and individual employees.

There is growing evidence that a significant portion of employees' medical and pharmacy costs are attributed to largely preventable chronic diseases related to poor nutrition/obesity, physical inactivity and tobacco use. Stress is another major risk factor that increases an individual's risk for chronic disease. These behavioral risk factors account for approximately one-third of all preventable deaths.

Wellness programs have the greatest impact on reducing health care costs and improving the overall health status of a majority of employees if they have a primary focus on preventing healthy employees from developing chronic diseases by reducing employee risk factors. This can be done most effectively by changes to policies and work environments that increase opportunities and support for employees to become more physically active, select healthier foods, avoid tobacco and manage stress. Wellness programs can also offer interventions to employees with existing chronic disease conditions to help them better manage those conditions and prevent the further progression of those diseases through early screening and disease management programs.

The next phase of the wellness initiative will include outcomes-based incentives for employees who are actively engaged in their health and well-being and programs targeting disease that are high in prevalence for the state employee population. The Department will track aggregate biometric measures (e.g., blood pressure, glucose, BMI, cholesterol) for our members and focus on maintaining or improving health status/risk, and being more prescriptive in plan design relating to wellness.

Most of the illnesses for state employees are directly preventable. Poor eating habits, physical inactivity, physiological disorders, stress and smoking are several of the factors contributing to heart disease, stroke, diabetes, hypertension, cancer, high blood pressure, high cholesterol and depression. The top six drug categories based on drug use by state employees are: Cholesterol, Blood Pressure, Depression, Ulcer, Asthma, and Diabetes. Most employees want to be healthy. For individuals to be successful, wellness must be integrated into their lives. As the majority of the people in the workforce spend 50% of their waking hours at work, the workplace presents employers and employees with an opportunity to improve individual health and overall organization wellness.

A commitment to wellness opportunities for 68,000 state employees requires leadership that is exclusively dedicated to program strategy, implementation, practice and outcomes. Securing the 2.0 FTE positions would further develop the program, formalize strategic objectives and be ultimately responsible for tactical implementation, including:

- Securing funding including grants, as possible;
- Establishing a Well-Wisconsin Oversight Committee;
- Establishing an inter-agency tactical Wellness Task Force;
- Establishing wellness coordinators within each agency;
- Finalizing strategic and tactical program objectives;
- Establishing existing baselines from which to measure program results;
- Establishing measurable program goals;
- Creating the implementation plan including timeline;
- Launching the Wellness Program for State of Wisconsin employees;
- Tracking and reporting on ROI outcomes to the Well-Wisconsin Oversight Committee; and
- Expanding the existing statewide wellness program operating plan with public and private sector leaders for integration into the worksite at the local level.

Return on Investment

The State of Wisconsin is spending over \$1.3 billion per year to provide insurance to over 68,000 full-time state employees. The Incentive Research Foundation study² reports the return on investment is estimated to save the state \$9.4 million annually or an estimated \$3.00 per \$1.00 spent for each employee. State government is well-positioned to create and support a culture of wellness for its employees and in doing so, develop and implement a model program, statewide, for worksite wellness. In addition, the Governor's commission formed to review fraud, waste and abuse in state government in January 2012, recommended the Group Insurance Board design a statewide program and adopt it as part of the uniform benefits package.³

If properly funded, designed, and administered, the next phase of the wellness initiative could help Wisconsin save millions of dollars in health care costs and become the Midwest leader in employee worksite wellness. The dollars spent on wellness activities will be reimbursed by the state's health insurance providers, therefore resulting in **net impact to the fund of zero**.

² Energizing Workplace Wellness Programs: The Role of Incentives, Rewards, & Recognition, Incentive Research Foundation, Schweyer July 2011

³ <http://walker.wi.gov/Documents/2012WFACommissionFinalReport.pdf>

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	6000	Wellness in the Workplace

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$69,000	\$92,000
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$26,200	\$35,000
06	Supplies and Services	\$52,400	\$166,600
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$147,600	\$293,600
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	2.00	2.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	6000	Wellness in the Workplace			
01	Employee benefit plans				
	76 Administration	\$147,600	\$293,600	2.00	2.00
	Employee benefit plans SubTotal	\$147,600	\$293,600	2.00	2.00
	Wellness in the Workplace SubTotal	\$147,600	\$293,600	2.00	2.00
	Agency Total	\$147,600	\$293,600	2.00	2.00

	Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	
Decision Item	6000	Wellness in the Workplace				
	SEG	S	\$147,600	\$293,600	2.00	2.00
	Total		\$147,600	\$293,600	2.00	2.00
Agency Total			\$147,600	\$293,600	2.00	2.00

Decision Item (DIN) - 7000

Decision Item (DIN) Title - Misc Re-estimates

NARRATIVE

The department requests cost-to-continue adjustments increasing authority under s. 20.515 (1)(w), numeric 176 and 188, "Administration" by \$214,000 in fiscal year 2013-14 and \$218,300 in fiscal year 2014-15, to reflect increased in inflation, calculated using the Consumer Price Index (CPI).

The department requests cost-to-continue adjustments increasing authority under s. 20.515 (1)(ut), numeric 164, "Health insurance data collection and analysis contracts" by \$20,200 in fiscal year 2013-14 and \$20,700 in fiscal year 2014-15, to reflect increased in inflation, calculated using the Consumer Price Index (CPI).

The department requests cost-to-continue adjustments increasing authority under s. 20.515 (1)(t), numeric 161, "Automated operating system" by \$85,600 in fiscal year 2013-14 and \$87,400 in fiscal year 2014-15, to reflect increased in inflation, calculated using the Consumer Price Index (CPI).

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
	CODES	TITLES
DECISION ITEM	7000	Misc Re-estimates

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$319,800	\$326,400
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$319,800	\$326,400
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	7000	Misc Re-estimates			
01	Employee benefit plans				
	61 Automated operating system	\$85,600	\$87,400	0.00	0.00
	64 Health insurance data collection and analysis contracts	\$20,200	\$20,700	0.00	0.00
	76 Administration	\$143,200	\$146,100	0.00	0.00
	88 Administration	\$70,800	\$72,200	0.00	0.00
	Employee benefit plans SubTotal	\$319,800	\$326,400	0.00	0.00
	Misc Re-estimates SubTotal	\$319,800	\$326,400	0.00	0.00
	Agency Total	\$319,800	\$326,400	0.00	0.00

Decision Item	Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	7000	Misc Re-estimates				
	SEG	S	\$319,800	\$326,400	0.00	0.00
	Total		\$319,800	\$326,400	0.00	0.00
Agency Total			\$319,800	\$326,400	0.00	0.00

Decision Item (DIN) - 7500

Decision Item (DIN) Title - Internal Revenue Code Compliance

NARRATIVE

The Department of Employee Trust Funds (Department) requests the attached changes to Chapter 40, Wisconsin Statutes for the purposes of compliance with the Internal Revenue Code.

Compliance with Internal Revenue Code
Biennial Budget 2013-2015
DIN 7500

Wisconsin Employee Trust Funds
September 24, 2012

Request

The Department of Employee Trust Funds (Department) requests the attached changes to Chapter 40, Wisconsin Statutes for the purposes of ensuring compliance with the Internal Revenue Code.

Analysis of Need

The department requests technical adjustments to chapter 40 of the Wisconsin Statutes to conform to the requirements of the Internal Revenue Code. The department and WRS are operated in compliance with the IRC, however the statutory language changes are necessary to ensure that the WRS' "plan language," contained in statute, rule, procedure, contracts and other documents, conforms to IRC and IRS regulatory requirements to maintain the qualified status of the WRS and to allow for flexibility in the event of future changes to the IRC.

There are no policy impacts from the proposed adjustments. The proposed changes are to align the statutory language with the IRC and other IRS guidance.

Fiscal Summary

The proposed amendments to Chapter 40 do not require an outlay of funds. However, if the WRS were found to be out of compliance with the IRC and other IRS guidance, the WRS would risk losing its status as an IRS 401(a) qualified plan. Loss of qualified status could result in penalties and unfavorable tax consequences to the WRS, its participants, and retirees.



2013 BILL

1 **AN ACT** *to renumber and amend* 40.02 (48g); *to amend* 40.015 (1), 40.015 (2),
2 40.02 (18g), 40.02 (33) (a) 1., 40.02 (33) (b) 1., 40.02 (33) (c), 40.02 (39m), 40.02
3 (48m) (e), 40.03 (1) (am), 40.03 (2) (t), 40.04 (10), 40.04 (11), 40.05 (1) (intro.),
4 40.05 (1) (a) 5., 40.05 (1) (a) 6., 40.05 (2) (intro.), 40.05 (2r) (a), 40.05 (2r) (b)
5 (intro.), 40.05 (4r), 40.08 (2) (b), 40.08 (14), 40.23 (4) (a), 40.23 (4) (b) (intro.),
6 40.23 (4) (e), 40.23 (4) (f) (intro.), 40.30 (4) (b), 40.31 (1), 40.32 (1), 40.72 (4r),
7 40.80 (2) (g), 40.80 (2t), 40.81 (2) and 40.86 (intro.); and **to create** 40.015 (3),
8 40.02 (31), 40.19 (5), 40.23 (4) (h), 40.23 (4) (i) and 40.23 (4) (j) of the statutes;
9 **relating to:** compliance of the Wisconsin Retirement System with applicable
10 provisions of the Internal Revenue Code.

Analysis by the Legislative Reference Bureau

The Wisconsin Retirement System (WRS) is currently established as a governmental plan and as a qualified plan for federal income tax purposes under the Internal Revenue Code (IRC). In addition, under current law, no WRS benefit plan may be administered in a manner which violates a provision of the IRC that authorizes or regulates the benefit plan or that would cause an otherwise tax exempt

BILL

benefit to become taxable under the IRC. This bill updates and conforms numerous provisions governing WRS benefits and the administration of the WRS to the IRC.

Because this bill relates to public employee retirement or pensions, it may be referred to the Joint Survey Committee on Retirement Systems for a report to be printed as an appendix to the bill.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

1 **SECTION 1.** 40.015 (1) of the statutes is amended to read:

2 40.015 (1) The Wisconsin retirement system is established as a governmental
3 plan and as a qualified plan for federal income tax purposes under the internal
4 revenue code Internal Revenue Code and shall be so maintained and administered.

5 **SECTION 2.** 40.015 (2) of the statutes is amended to read:

6 40.015 (2) No benefit plan authorized under this chapter may be administered
7 in a manner which violates an ~~internal-revenue-code~~ Internal Revenue Code
8 provision that authorizes or regulates that benefit plan or which would cause an
9 otherwise tax exempt benefit to become taxable under the ~~internal-revenue-code~~
10 Internal Revenue Code.

11 **SECTION 3.** 40.015 (3) of the statutes is created to read:

12 40.015 (3) For the purposes of compliance with the Internal Revenue Code, the
13 plan year is January 1 through December 31.

14 **SECTION 4.** 40.02 (18g) of the statutes is amended to read:

15 40.02 (18g) “Deferred compensation plan” means a plan which is in accordance
16 with section 457 of the ~~internal-revenue-code~~ Internal Revenue Code, under which
17 an employer executes an agreement by which an employee voluntarily agrees to
18 defer a part of gross compensation for payment at a later date. Deferred

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1 compensation plan does not include annuity plans specified under section 403 (b) of
2 the internal revenue code Internal Revenue Code.

3 **SECTION 5.** 40.02 (31) of the statutes is created to read:

4 40.02 (31) “Federal annual compensation limits” means any annual
5 compensation limit under section 401 (a) (17) of the Internal Revenue Code, as
6 adjusted for any cost of living increases under section 401 (a) (17) (B) of the Internal
7 Revenue Code, but only with respect to plan years beginning after December 31,
8 1995, and only with respect to individuals who first became participating employees
9 in plan years beginning after December 31, 1995. This subsection shall be applied
10 in compliance with section 401 (a) (31) of the Internal Revenue Code pursuant to any
11 applicable federal regulations or guidance adopted under the Internal Revenue
12 Code.

13 **SECTION 6.** 40.02 (33) (a) 1. of the statutes is amended to read:

14 40.02 (33) (a) 1. The participant’s total earnings received or considered to be
15 received under sub. (22) (e), (ef), or (em) and for which contributions are made under
16 s. 40.05 (1) and (2) during the 3 annual earnings periods (excluding any period more
17 than 3 years prior to the effective date for any participating employer) in which the
18 earnings were the highest, subject to the federal annual compensation limits under
19 ~~26 USC 401 (a) (17) for a participating employee who first becomes a participating~~
20 ~~employee on or after January 1, 1996; by~~

21 **SECTION 7.** 40.02 (33) (b) 1. of the statutes is amended to read:

22 40.02 (33) (b) 1. For a state elected official who is prohibited by law from
23 receiving an increase in compensation during the official’s term of office and who so
24 elects, one-twelfth of the annual salary, subject to the federal annual compensation
25 limits under ~~26 USC 401 (a) (17) for a participating employee who first becomes a~~

BILL

1 participating employee on or after January 1, 1996, which would have been payable
2 to the participant during the last completed month in which the participant was a
3 participating employee in such a position if the participant had not been prohibited
4 by law from receiving an increase in salary during his or her term of office, but only
5 with respect to service as a state elected official.

6 **SECTION 8.** 40.02 (33) (c) of the statutes is amended to read:

7 40.02 (33) (c) For a participant who makes an election under s. 40.30 (2), the
8 monthly rate of earnings applicable under par. (a) or (b), increased as provided under
9 s. 40.30 (4) (b) but subject to the federal annual compensation limits under 26 USC
10 401 (a) (17) for a participating employee who first becomes a participating employee
11 on or after January 1, 1996.

12 **SECTION 9.** 40.02 (39m) of the statutes is amended to read:

13 40.02 (39m) “Internal revenue code Revenue Code” means the federal internal
14 revenue code Internal Revenue Code of 1986, under Title 26, USC, as amended, and
15 applicable federal regulations adopted by the federal department of the treasury,
16 including temporary regulations.

17 **SECTION 10.** 40.02 (48g) of the statutes is renumbered 40.02 (25g) and amended
18 to read:

19 40.02 (25g) “Public Eligible retired public safety officer” has the meaning given
20 in 26 USC section 402 (I) (I) (4) (C) (B) of the Internal Revenue Code.

21 **SECTION 11.** 40.02 (48m) (e) of the statutes is amended to read:

22 40.02 (48m) (e) The determination of the alternate payee share does not
23 require that benefits be paid to the alternate payee if those benefits are also required
24 to be paid to another alternate payee or to the internal revenue service under a lien

BILL

1 placed on the participant's account under 26 USC section 64 of the Internal Revenue
2 Code.

3 **SECTION 12.** 40.03 (1) (am) of the statutes is amended to read:

4 40.03 (1) (am) Shall ensure that the Wisconsin retirement system complies
5 with the internal-revenue code Internal Revenue Code as a qualified plan for income
6 tax purposes and shall ensure that each benefit plan is administered in a manner
7 consistent with all internal-revenue code Internal Revenue Code provisions that
8 authorize and regulate the benefit plan.

9 **SECTION 13.** 40.03 (2) (t) of the statutes is amended to read:

10 40.03 (2) (t) Shall ensure that the Wisconsin retirement system complies with
11 the internal-revenue code Internal Revenue Code as a qualified plan for income tax
12 purposes and shall ensure that each benefit plan is administered in a manner
13 consistent with all internal-revenue code Internal Revenue Code provisions that
14 authorize and regulate the benefit plan.

15 **SECTION 14.** 40.04 (10) of the statutes is amended to read:

16 40.04 (10) An accumulated sick leave conversion account shall be maintained
17 within the fund, to which shall be credited all money received under s. 40.05 (4) (b),
18 (bc), (bf), (bm), (br), and (bw) for health insurance premiums, as dividends or
19 premium credits arising from the operation of health insurance plans and from
20 investment income on any reserves established in the fund for health insurance
21 purposes for retired employees and their surviving dependents, and for the payment
22 of any employer share of OASDHI contributions for sick leave credits used to pay
23 health insurance premiums for dependents who are not tax dependents under the
24 Internal Revenue Code. Premium payments to health insurers authorized in s. 40.05
25 (4) (b), (bc), (bf), (bm), and (bw) shall be charged to this account. This subsection does

BILL

1 not prohibit the direct payment of premiums to insurers when appropriate
2 administrative procedures have been established for direct payments.

3 **SECTION 15.** 40.04 (11) of the statutes is amended to read:

4 40.04 (11) A health insurance premium credit account shall be maintained
5 within the fund, to which shall be credited all moneys received under s. 40.05 (4) (by)
6 for the payment of health insurance premiums, as dividends or premium credits
7 arising from the operation of health insurance plans and from investment income on
8 any reserves established in the fund for health insurance purposes for retired
9 employees and their surviving dependents, and for the payment of any employer
10 share of OASDHI contributions for health insurance premium credits used to pay
11 health insurance premiums for dependents who are not tax dependents under the
12 Internal Revenue Code. Premium payments to health insurers authorized in subch.
13 IX may only be charged to this account after all other health insurance premium
14 credits under s. 40.05 (4) (b), (bc), (bf), (bm) and (bw) are exhausted. This subsection
15 does not prohibit the direct payment of premiums to insurers when appropriate
16 administrative procedures have been established for direct payments.

17 **SECTION 16.** 40.05 (1) (intro.) of the statutes is amended to read:

18 40.05 (1) EMPLOYEE RETIREMENT CONTRIBUTIONS. (intro.) For Wisconsin
19 retirement system purposes employee contributions on earnings for service credited
20 as creditable service shall be subject to the federal annual compensation limits under
21 26 USC 401 (a) (17) for a participating employee who first becomes a participating
22 employee on or after January 1, 1996, and shall be made as follows:

23 **SECTION 17.** 40.05 (1) (a) 5. of the statutes is amended to read:

24 40.05 (1) (a) 5. Additional contributions may be made by any participant by
25 deduction from earnings or otherwise or may be provided on behalf of any participant

BILL

1 in any calendar year in which the participant has earnings, subject to any limitations
2 imposed on contributions by the ~~internal revenue code~~ Internal Revenue Code,
3 applicable regulations adopted under the ~~internal revenue code~~ Internal Revenue
4 Code and rules of the department.

5 **SECTION 18.** 40.05 (1) (a) 6. of the statutes is amended to read:

6 40.05 (1) (a) 6. Under the rules promulgated under s. 40.03 (2) (r), additional
7 contributions, ~~other than the first \$5,000 of contributions, or a beneficiary's prorated~~
8 ~~share thereof~~, that are attributable to a death benefit paid under s. 40.73, may be
9 made to the core annuity division by any participant by rollover contribution of a
10 payment or distribution from a pension or annuity qualified under section 401 of the
11 Internal Revenue Code, subject to any limitations imposed on contributions by the
12 Internal Revenue Code, applicable regulations adopted under the Internal Revenue
13 Code, and rules of the department.

14 **SECTION 19.** 40.05 (2) (intro.) of the statutes is amended to read:

15 40.05 (2) EMPLOYER RETIREMENT CONTRIBUTIONS. (intro.) For Wisconsin
16 retirement system purposes and subject to ~~the federal~~ annual compensation limits
17 ~~under 26 USC 401 (a) (17) for a participating employee who first becomes a~~
18 ~~participating employee on or after January 1, 1996:~~

19 **SECTION 20.** 40.05 (2r) (a) of the statutes is amended to read:

20 40.05 (2r) (a) Contributions made under this section are subject to the
21 limitations under s. 40.32 and the ~~internal revenue code~~ Internal Revenue Code.

22 **SECTION 21.** 40.05 (2r) (b) (intro.) of the statutes is amended to read:

23 40.05 (2r) (b) (intro.) If a participant in the Wisconsin retirement system also
24 participates in a different retirement plan offered by an employer that is subject to
25 section 401 of the ~~internal revenue code~~ Internal Revenue Code and the internal

BILL**SECTION 21**

1 revenue service seeks to disqualify one or more of the plans because the aggregate
2 contributions to the plans exceed the contribution limits under section 415 of the
3 ~~internal revenue code~~ Internal Revenue Code, the internal revenue service, if it
4 permits state law to determine the order of disqualification of such retirement plans,
5 shall disqualify the retirement plans in the following order:

6 **SECTION 22.** 40.05 (4r) of the statutes is amended to read:

7 40.05 (4r) PAYMENT OF CERTAIN INSURANCE PREMIUMS. If an annuitant is a an
8 eligible retired public safety officer and receives health care coverage or long-term
9 care coverage under a plan other than one offered under subch. IV, and if the
10 annuitant so elects by providing written notice to the department, the premium shall
11 be paid as a deduction under s. 40.06 (1) (a) from the annuitant's annuity. If the
12 annuitant receives an annuity that is not sufficient to cover premium payments, the
13 annuitant shall make premium payments directly to the insurer. The department
14 shall establish procedures to permit an annuitant who is a an eligible retired public
15 safety officer to elect to have his or her premium paid as a deduction under s. 40.06
16 (1) (a) from his or her annuity. The annuitant shall provide the department with all
17 necessary information to permit the department to make the payment in a timely
18 manner.

19 **SECTION 23.** 40.08 (2) (b) of the statutes is amended to read:

20 40.08 (2) (b) If permitted under a deferred compensation plan established
21 under subch. VII, insurance premiums for health or long-term care insurance
22 coverage for a an eligible retired public safety officer may be deducted from an
23 amount distributed under a deferred compensation plan and paid directly to an
24 insurer.

25 **SECTION 24.** 40.08 (14) of the statutes is amended to read:

BILL

1 40.08 (14) ROLLOVERS TO OTHER RETIREMENT PLANS. If a participant who is
2 entitled to receive a lump sum payment or a monthly annuity certain under s. 40.24
3 (1) (f) for which the participant has specified a term of less than 120 months or an
4 annuity certain of less than 10 years in duration from the Wisconsin retirement
5 system and who has an account established under any other retirement plan located
6 in the United States so directs in writing, on a form prescribed by the department,
7 the department shall pay the lump sum payment or the monthly annuity directly to
8 the participant's account under that other retirement plan for credit under that other
9 retirement plan. The department shall cease payment of the monthly annuity
10 payments to the annuitant's account under the other retirement plan within 30 days
11 of the written request of the annuitant or written notice of the annuitant's death.
12 This subsection shall be applied in compliance with section 401 (a) (31) of the
13 Internal Revenue Code pursuant to any applicable federal regulations or guidance
14 adopted under the Internal Revenue Code.

15 **SECTION 25.** 40.19 (5) of the statutes is created to read:

16 40.19 (5) For the purpose of complying with section 401 (a) (7) of the Internal
17 Revenue Code, a participant shall be 100 percent vested in, and have a nonforfeitable
18 right to, his or her retirement benefits upon attaining eligibility for the retirement
19 benefits. A participant shall also be 100 percent vested in, and have a nonforfeitable
20 right to, his or her accumulated employee contributions at all times. In the event of
21 a termination of, or a complete discontinuance of employer contributions to the
22 Wisconsin retirement system, a participant shall be 100 percent vested in, and have
23 a nonforfeitable right to, his or her accrued retirement benefits. All such benefits are
24 nonforfeitable to the extent funded. For the purpose of complying with section 401
25 (a) (8) of the Internal Revenue Code, any forfeitures of benefits by participants or

BILL

1 former participants of the Wisconsin retirement system may not be used to pay
2 benefit increases.

3 **SECTION 26.** 40.23 (4) (a) of the statutes is amended to read:

4 40.23 (4) (a) Subject to all requirements under the ~~internal revenue code~~
5 section 401 (a) (9) of the Internal Revenue Code and federal regulations applicable
6 to that section, which relate to a governmental plan, as defined in section 414 (d) of
7 the Internal Revenue Code, the department shall distribute to the participant the
8 entire amount that is credited to the account of a participant under the Wisconsin
9 retirement system no later than the required beginning date, unless the department
10 distributes this amount as an annuity or in more than one payment. If the
11 department distributes this amount as an annuity or in more than one payment, the
12 department shall begin the distribution no later than the required beginning date.

13 **SECTION 27.** 40.23 (4) (b) (intro.) of the statutes is amended to read:

14 40.23 (4) (b) (intro.) In the calendar year immediately preceding the calendar
15 year of a participant's required beginning date, if the department distributes the
16 amount that is credited to the account of a participant under the Wisconsin
17 retirement system in a form other than as a lump sum payment, the department,
18 subject to all requirements under the ~~internal revenue code~~ Internal Revenue Code,
19 shall calculate the distribution to the participant according to one of the following:

20 **SECTION 28.** 40.23 (4) (e) of the statutes is amended to read:

21 40.23 (4) (e) 1. Subject to subds. 2. to 4. and section 401 (a) (9) of the Internal
22 Revenue Code, if a participant dies before the distribution of benefits has commenced
23 and the participant's beneficiary is the spouse or domestic partner, the department
24 shall begin the distribution within 5 years after the date of the participant's death.

BILL

1 2. If Subject to section 401 (a) (9) of the Internal Revenue Code, if the spouse
2 or domestic partner files a subsequent beneficiary designation with the department,
3 the payment of the distribution may be deferred until the January 1 of the year in
4 which the participant would have attained the age of 70.5 years.

5 3. If Subject to section 401 (a) (9) of the Internal Revenue Code, if the spouse
6 or domestic partner does not apply for a distribution, the distribution shall begin as
7 an automatic distribution as provided under subd. 1. or under par. (c), whichever
8 distribution date is earlier.

9 4. If Subject to section 401 (a) (9) of the Internal Revenue Code, if the spouse
10 or domestic partner dies, but has designated a new beneficiary, the birth date of the
11 spouse or domestic partner shall be used for the purposes of determining the required
12 beginning date.

13 5. The department shall specify by rule all procedures relating to an automatic
14 distribution to the spouse or domestic partner. These rules shall comply with the
15 internal revenue code Internal Revenue Code.

16 **SECTION 29.** 40.23 (4) (f) (intro.) of the statutes is amended to read:

17 40.23 (4) (f) (intro.) If a participant dies before the distribution of benefits has
18 commenced and the participant's beneficiary is not the spouse or domestic partner
19 beneficiary cannot delay the automatic payment of benefits under section 401 (a) (9)
20 of the Internal Revenue Code, the beneficiary shall do one of the following:

21 **SECTION 30.** 40.23 (4) (h) of the statutes is created to read:

22 40.23 (4) (h) Death and disability benefits provided under this chapter are
23 limited by the incidental benefit rule under section 401 (a) (9) (G) of the Internal
24 Revenue Code and applicable federal regulations and guidance adopted under the
25 Internal Revenue Code.

BILL

1 **SECTION 31.** 40.23 (4) (i) of the statutes is created to read:

2 40.23 (4) (i) Distributions of benefits shall conform to a reasonable and good
3 faith interpretation of section 401 (a) (9) of the Internal Revenue Code.

4 **SECTION 32.** 40.23 (4) (j) of the statutes is created to read:

5 40.23 (4) (j) Pursuant to a qualified domestic relations order, the department
6 may establish separate benefits for a participant and an alternate payee.

7 **SECTION 33.** 40.30 (4) (b) of the statutes is amended to read:

8 40.30 (4) (b) Subject to the federal annual compensation limits under ~~26 USC~~
9 ~~401 (a) (17) for a participating employee who first becomes a participating employee~~
10 ~~on or after January 1, 1996~~, the final average salary or final average earnings used
11 in the benefit formula computation for each retirement system under par. (a) shall
12 be the individual's final average salary or final average earnings under the
13 respective retirement system, determined in accordance with the provisions of that
14 retirement system based on the earnings covered by that retirement system and on
15 all service permitted under that retirement system to be used in determining the
16 final average salary or final average earnings, increased by the percentage increase
17 in the average of the total wages, as determined under 42 USC 415 (b) (3) (A),
18 between the date on which the individual terminated all employment covered by that
19 retirement system and the date on which the individual terminated all employment
20 covered by any of those retirement systems.

21 **SECTION 34.** 40.31 (1) of the statutes is amended to read:

22 40.31 (1) **GENERAL LIMITATION.** The maximum retirement benefits payable to
23 a participant in a calendar year, excluding benefits attributable to contributions
24 subject to any limitations under s. 40.23 (2) (a), (2m) (e) and (3) the limit under s.
25 40.32, may not exceed the maximum benefit limitation established under section 415

BILL

1 (b) of the Internal Revenue Code, as adjusted under section 415 (d) of the Internal
2 Revenue Code and any applicable regulations or guidance adopted under the
3 Internal Revenue Code, except that the limit for an individual who first became a
4 participant before January 1, 1990, may not be less than the accrued benefits of the
5 participant, as determined without regard to any changes to the retirement system
6 after October 14, 1987.

7 **SECTION 35.** 40.32 (1) of the statutes is amended to read:

8 40.32 (1) The sum of all employee post-tax contributions allocated to a
9 participant's account under each defined contribution plan sponsored by the
10 employer, including all employer contributions and picked-up contributions
11 credited with interest at the effective rate under ss. 40.04 (4) (a) and (5) (b) and 40.05
12 (2) (g) and all employee contributions made under ss. 40.02 (17) and 40.05 (1), may
13 not in any calendar year exceed the maximum contribution limitation established
14 under section 415 (c) of the Internal Revenue Code, as adjusted under section 415 (d)
15 of the Internal Revenue Code and any applicable regulations adopted by the federal
16 department of the treasury.

17 **SECTION 36.** 40.72 (4r) of the statutes is amended to read:

18 40.72 (4r) At any time after an insured employee's amount of life insurance is
19 reduced under subs. (2) and (3) and life insurance premiums are no longer required
20 under s. 40.05 (6) (b), the employee may convert the present value of the life
21 insurance to pay the premiums for health or long-term care insurance provided
22 under subch. IV, but only if the department determines that the value of the
23 conversion is exempt from taxation under the internal revenue code Internal
24 Revenue Code.

25 **SECTION 37.** 40.80 (2) (g) of the statutes is amended to read:

BILL**SECTION 37**

1 40.80 (2) (g) Serve as trustee of any deferred compensation plan established
2 under this section, hold the assets and income of the plan in trust for the exclusive
3 benefit of the employees who participate in the plan and their beneficiaries, and
4 maintain the plan as an eligible deferred compensation plan, as defined in ~~26-USA~~
5 section 457 (b) of the Internal Revenue Code, and as a governmental plan for eligible
6 employers, as defined in ~~26-USA~~ section 457 (e) (1) (A) of the Internal Revenue Code.

7 **SECTION 38.** 40.80 (2t) of the statutes is amended to read:

8 40.80 (2t) The deferred compensation board may require a deferred
9 compensation plan under this subchapter, upon election by a participant who is a an
10 eligible retired public safety officer, to allow for the deduction of insurance premiums
11 for health or long-term care insurance coverage from an amount distributed from a
12 participant's account and for the payment of the premiums directly to an insurer.

13 **SECTION 39.** 40.81 (2) of the statutes is amended to read:

14 40.81 (2) Any local government employer, or 2 or more employers acting jointly,
15 may also elect under procedures established by the employer or employers to
16 contract directly with a deferred compensation plan provider to administer a
17 deferred compensation plan or to manage any compensation deferred under the plan
18 and may also provide a plan under section 403 (b) of the ~~internal revenue code~~
19 Internal Revenue Code under procedures established by the local government
20 employer or employers.

21 **SECTION 40.** 40.86 (intro.) of the statutes is amended to read:

22 **40.86 Covered expenses.** (intro.) An employee-funded reimbursement
23 account plan may provide reimbursement to an employee for only the following
24 expenses that are actually incurred and paid by an employee and that the board

BILL

1 determines are consistent with the applicable requirements of the internal revenue
2 code Internal Revenue Code:

3 (END)

Decision Item (DIN) - 9901

Decision Item (DIN) Title - File Maintenance fix from 13.10 from one time to ongoing

NARRATIVE

To correct the dollars to be ongoing from 13.10 request because the project was 5-7 year project therefore long term.
